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SUBJECT: AMBASSADOR MEETS WITH HEAD OF NEW NUCLEAR PLANT
PROJECT AND HEARS DESIRE FOR INVESTMENT

REF: A. VILNIUS 581

[1](#)B. VILNIUS 275

Classified By: CDA Damian Leader for reasons 1.4 (b) and (d).

SUMMARY

[1](#)1. (C) The Ambassador's introductory meeting with Sarunas Vasiliauskas, head of Visagino Atomines Elektrines (VAE), the firm planning the construction of a new nuclear power plant in Lithuania, displayed the complexities surrounding Lithuania's desire to build a new nuclear reactor. Vasiliauskas praised the recent TDA sponsored orientation visit (OV) to the United States for the contacts and information it provided key Lithuanian decision makers. He also emphasized the GOL's need to find a "White Knight" or strategic investor that can shoulder a significant portion of the cost for a new nuclear facility. He said that the GOL would be unlikely to choose a nuclear power plant (NPP) technology before it chooses a strategic investor, although VAE does have a preference for Westinghouse's AP1000 reactor. Vasiliauskas emphasized that he is aware that some large European utilities that could fulfill the role of strategic investor may come with predetermined reactor technology choices. The invitation to invest (tender for a strategic investor) will include a request that the strategic investor list technologies they would consider. To incentivize bidders to play the part of a strategic investor the GOL will pursue the creation of a single build and operate licensing process for the new NPP. Vasiliauskas also said that Russian plans to build a new NPP in Kaliningrad would not derail the Visaginas project. He asked for U.S. help to encourage Poland to not be focused on French technology for their NPPs and urged us to help the GOL find U.S. and European investors.

PRAISE FOR TDA VISIT TO USA

[1](#)2. (C) Vasiliauskas thanked the Ambassador for the recent TDA sponsored nuclear orientation visit (OV) to the United States. He praised the high level contacts that were made by the Lithuanian delegation within and outside the USG, highlighting the meetings with the NRC.

WHITE KNIGHT

[1](#)3. (C) The OV helped Vasiliauskas and the other Lithuanian delegates understand the magnitude of the challenge of attracting a strategic investor to the Visaginas NPP (VNPP) project. Vasiliauskas showed the Ambassador a document

titled "White Knight," which detailed the different steps awaiting the parties in the project and by its title assumes that Lithuania will find an investor willing to provide a large portion of the financing for an NPP. He said he hoped that NPP vendors will speak with European utilities about the upcoming invitation to invest (tender) for the strategic investor. He mentioned GDF Suez, EDF, EON, Fortum, Iberdrola, RWE and Vattenfall in this context. Vasiliauskas added that the GOL would like U.S. investors to join in the project although they recognize that a significant share of the project would be a challenge for a U.S. utility, as U.S. utilities are smaller than their European counterparts, headquartered thousands of miles away, and already have plenty on their plate in the United States. He observed that the GOL feels it will be easier to invite a smaller European utility to invest in the project, i.e., a Swedish or a Finnish firm, than the "difficult" French and Germans. Vasiliauskas indicated that a sovereign guarantee for the recovery of the project cost was not possible at this point, as a GOL guarantee could delay Lithuanian hopes to enter the Euro Zone (a difficult pill to swallow when Estonia is likely to begin using the euro in 2010). Hence, financing would need to be based on the balance sheet of a strategic investor and will not be a case of project financing according to Vasiliauskas.

14. (C) Vasiliauskas said that during the OV the Lithuanian visitors frequently heard from their U.S. interlocutors (particularly Westinghouse) about the need to pick the type

of nuclear technology before a strategic investor was chosen.

He cautioned, however, that this was not necessarily the best idea for the Visaginas project, according to Rothschilds, the lead consultant hired by the GOL. Vasiliauskas said that Rothschilds had advised that picking the technology before a strategic investor might eliminate interest on the part of some strategic investors.

TECHNOLOGY PREFERENCES

15. (C) Vasiliauskas reiterated that the GOL has a clear preference for Westinghouse's AP1000. The GE/Hitachi reactor design is less attractive because its size might require upgrades to the Lithuanian grid. Vasiliauskas stressed that the GOL is not closing the door for bigger reactors, but as he has stated before the selection of a larger reactor would require grid upgrades that the investors would have to bear (reftel A).

16. (C) Vasiliauskas mentioned Polish interest in French technology, evidenced by PGE's agreement with EDF, and how the selection of a French plant on the Polish or Lithuanian side could promote interest in the same technology on the other side of the border due to economies of scale resulting from building multiple reactors of the same type. Regardless of the Polish technology decision he insisted the Poles remained committed to Visaginas. He has told us in the past that the Poles are two to three years behind Lithuania in their nuclear plant development plans and, thus, could benefit from the experience gained by being a part of the VNPP project.

INVITATION NOT TENDER

17. (C) For the first time in our conversations regarding the VNPP with Vasiliauskas he used the vocabulary "invitation to invest" rather than tender (Vasiliauskas said this more accurately would describe the search for strategic and associated investors). Recently the GOL authorized the Ministry of Energy to issue the invitation (tender) for a strategic investor by the end of the year. The next step is the appointment of a Tender Commission (which Vasiliauskas said he might head). The Commission will announce the requirements for a strategic investor, with the approval of

the Ministry of Energy. Vasiliauskas emphasized that the prequalification criteria for a strategic investor would be that the NPP conform to meeting the need for diversity of supply in Lithuania's energy mix, i.e., a Russian reactor would not be possible because the associated equipment, training, and fuel would make Lithuania even more dependent on this source. He indicated that prequalification and all documentation from the parties offering a bid would have to be submitted by the end of January. Vasiliauskas said the GOL would like to see non binding proposals from the strategic investors by March 2010. He said that the tender will request that strategic investors disclose whether they have a choice of technology. Thus, the strategic investor will likely not be chosen until the end of 2010, about eight months later than detailed in the previous timeline of the GOL Directive 300 (reftel B). Vasiliauskas clarified that adding the technology provision to the strategic investor "invitation to invest" process justifies the increased time to select a party. He continued that the GOL sees this as a normal business bidding process with the investor being ready to drive the design, construction and operation of the NPP.

18. (C) To facilitate attracting investors to the VNPP, Vasiliauskas said the GOL will pursue the creation of a single build and operate license. He said that, thanks to the OV sponsored trip to the United States, the GOL now had a good understanding of the business environment for nuclear plant development and was reassured that the NRC is comfortable with the single licensing process. Vasiliauskas also emphasized, without prompting by the Ambassador, that bribes will not be tolerated in the VNPP project. He enunciated that Rothschilds has advised the GOL that if they want transparency in bidding they have to have transparent rules.

THE RUSSIANS ARE COMING

19. (C) Vasiliauskas said that Russian interest in building a 2300 MW plant in Kaliningrad coincided with GOL selection of the Rothschilds as the lead consultant for the VNPP project. He joked, "This must have meant we were on the right track." Vasiliauskas said Russia has the financing to build such a plant and they have free resources with their Turkish project not moving forward. Nonetheless, Vasiliauskas explained that the Russian project faces the challenge of distribution. The Kaliningrad grid does not have the capacity presently to export such a large amount of power, particularly in light of a 900 MW natural gas fired plant opening there by the end of the year. The Polish firm PSE told Vasiliauskas they have no plans to build new connections to Kaliningrad. Yet, the Russians are speaking of building electrical connections to Germany. Vasiliauskas emphasized that he would not declare that the Russians want to stop the VNPP project. He maintained that VAE had done a market analysis and determined that demand for electricity will be greater than generation capacity in the region by 2018. Nonetheless, Vasiliauskas said a new NPP in Kaliningrad could attract strategic investors that might be interested in investing in the VNPP. He said the Germans need electricity as much as they need gas and then added rhetorically, "Who can deny there is no deal between the Germans and Russians on nuclear?"

HOW THE U.S. CAN HELP

110. (C) Vasiliauskas said the U.S. could help by attempting to influence Poland not to be too inclined to select a French option for the NPPs it wants to build. He added that if the Poles go with a French design for their nuclear reactors Lithuania will feel pressure to choose the same option.

111. (C) Vasiliauskas also asked if we could help attract U.S. investors and/or European utilities to the project. He said, "Ideally I would see an AP1000 with a couple of

utilities like Vattenfall and RWE behind it." NOTE: Embassy has already been in touch with Commercial Service representatives in Warsaw and hopes that the senior commercial representative in Warsaw will be able to meet with Vasiliauskas when he travels there this month. In addition, Embassy will watch for announcement of the "invitation to invest" (tender) for the strategic investor in the Official Journal of the European Union and make sure USG agencies are informed.

COMMENT

¶12. (C) The Ambassador emphasized strongly that the U.S. wants to be as supportive as possible for the VNPP project. She offered to be available when necessary and offered the help of the U.S. Commercial Service. Embassy will continue to follow this project closely and make sure that USG agencies are kept aware of the opportunities and challenges surrounding the VNPP.

LEADER